THE MONETARY SIDE OF THE COST OF LIVING PROBLEM

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Twenty years ago the whole world was complaining of falling prices and the consequent "depression of trade." Now we are complaining of rising prices and the high cost of living. When the period of falling prices was upon us, the nature of the movement came to be widely recognized as largely monetary. There was much talk of "appreciation of gold." In consequence there were many proposed monetary remedies, including bi-metallism, both of the international variety and of the 16 to 1 stripe.

In like manner the rising prices of today are coming to be recognized as a depreciation of gold. Certain it is that, from a purely relative point of view, falling prices mean appreciation of money and rising prices mean depreciation of money, for when prices are less than formerly, a dollar will evidently buy more than formerly, and reversely when, as at present, prices are more than formerly, a dollar will buy less than formerly. It would, however, be begging the question if we should content ourselves with this purely relative statement. The real problem before us is: which should be regarded as in the main the absolute change? At the present time should we say goods have gone up or the dollar has gone down?

It would take us too far afield to attempt to fix an absolute standard of value. The problem is too large for a brief discussion. I have tried to treat of it elsewhere, particularly in *The Purchasing Power of Money*, but it is possible to indicate the lines on which the question can, for all practical purposes be decided. If it can be shown, for instance, that today the good things of this world are becoming scarce on the one hand while money and its substitutes are not becoming plentiful it would be reasonable to conclude that the fault lies with goods and not with money. If, on the contrary, it can be shown that money and its substitutes are becoming plentiful and that goods are not

becoming scarce, it is reasonable to conclude that the fault lies chiefly on the monetary side.

It seems to me that this is the really great issue before us and that it has been largely overlooked by the principal disputants in the case. On the one side there are those who take it for granted that the fault lies with goods and refuse to consider that every price, being expressed in money, has a monetary side as well as a merchandise side. On the other hand, there are many who would lay the blame on gold, begging the question by stating the mere relative fact that the purchasing power of the dollar is diminishing. The only method of deciding on which side the proof lies is by a world wide investigation and it is hoped that the proposed international conference on the high cost of living, a bill for which passed the Senate last spring, may at last materialize through the efforts of President Wilson and the new Congress. Then we may expect sufficient data to be assembled to enable us to decide whether the present condition of rising prices is primarily a monetary or primarily a merchandise proposition.

In the absence of full data no statement can be made which cannot be disputed. My own studies, however, have led me to the tentative conclusion that the fault is primarily with money. Before I give reasons for this conclusion I would like to say that, in my opinion, the chief reason why this conclusion is not more generally recognized is the common illusion that prices of goods pertain only to goods and have nothing to do with money. The money factor is forgotten because money is like the atmosphere, a medium in which our commerce constantly lives and moves and of which therefore it is usually unconscious. To change the simile we are all standing on a money platform and just as the movement of the earth on which we stand was unrecognized for so many generations because it seemed immovable and just as our earth's motion was once ascribed to the rest of the universe, so we are prone to mistake a change in money, in terms of which everything else is expressed, for a change in those other things.

When we say "the prices of goods are determined by supply and demand" we almost always ignore money. We only think of the supply and demand of the goods. But that is only half of the story. Prices of goods are determined by the supply and demand not only of goods, but by the supply and demand of gold in terms of which, through money, all prices are expressed.

Let us prove this fact to ourselves. Suppose the supply of gold

(and substitutes for gold, i.e., credit) to greatly increase, as it has done during the last fifteen years, where will this increased supply of gold show itself? Where can it show itself? Not in the price of gold, for that is arbitrarily fixed by the government at $18.60 per ounce. No matter how many new gold mines are discoverd, no matter how many new methods for obtaining gold are found, the government continues to buy and sell gold at exactly $18.60 per ounce. This increased supply of gold beats in vain against the price of gold, for that is as certain and as fixed as the proverbial death and taxes. Where then can this increased supply of gold make itself felt? Only in higher prices of goods. The prices of goods are, after all, merely the value of those goods expressed in gold. When an increase in the supply of gold is not allowed to affect the price of gold, because that price is securely tied, it is not altogether foiled but takes its revenge, so to speak, on the prices of other goods. The gold being more plentiful and consequently less really valuable, each dollar will buy less goods and the prices of goods will rise.

If once the money illusion can be overcome, people will be open minded enough to look at the actual evidence and decide whether the rise of prices represents an appreciation of goods or a depreciation of money.

The following evidence is offered in support of the conclusion that the problem before us is primarily a monetary one. It can scarcely be a coincidence that throughout the history of the world prices have risen whenever there has been a great and prolonged increase in production of the precious metals, or that usually when there has been a great falling off in the production of these metals or a great increase in the demand for them, prices have fallen.

One of the most important economic results of the discovery of America was the consequent increase in the precious metals which came from the new world, especially after the opening of the famous mines of Potosi in Bolivia. Its economic importance lay in the steady increase in prices which accompanied it, an increase of several hundred per cent between the discovery of America and the nineteenth century. A lull in the production of the precious metals was accompanied by a fall in prices between 1809 and 1849. After the California discoveries in 1849 and the Australian discoveries in 1851 and 1852 prices again started upward. From 1873 to 1896 occurred a great fall in prices simultaneously with a slackening in the production of gold, the adop-

tion of the gold standard by numerous nations (Germany, the Scandinavian monetary union, the Latin union, the United States, the Netherlands, Austria, India) and a slackening in the growth of banking. Since 1896, the gold from South Africa, from Cripple Creek and other Rocky Montain mines, from the Klondike, together with increase in money media of all kinds, has been practically coincident with rising prices since that date.

The rise in prices during the last fifteen years has not only been great but general. It applies to almost all commodities and to all countries for which we have figures. If practically all the children in a certain school were stricken simultaneously with typhoid fever, we should quite reasonably suspect that there was some common source from which the germ had come! If the prices of most commodities rise quite simultaneously, we, very reasonably, it seems to me, should attribute this rise to a common factor, rather than to various and isolated causes relating to the commodities separately considered. In other words, on the basis of probabilities, it is reasonable to assume that the present general rise in prices is related to some common fact. Since every price is tied to gold, and the supply of gold has greatly increased during the last fifteen years, we would not then be unreasonable in suspecting, if not convicting that fact of being responsible for the present high prices. No other important common cause has been suggested.

There can be no question that money is becoming abundant. The next question is: Are goods becoming scarce? So far as the facts are available, they point to the opposite conclusion. First, the volume of trade in general in the United States[1] has increased on an average 5.3 per cent per annum since 1896, which is more than the increase in our population ($1\frac{1}{2}$ per cent per annum), showing that our average per capita trade has increased; and trade is fairly proportional to consumption and production. It is true that a comparison of the census figures for 1899 and 1909 shows a very slight increase (9 per cent) in production of the leading crops in the last ten years which is a very slight *decrease* in the per capita production. But according to the statistics of Nat Murray of the Department of Agriculture, the census years were

[1] See "Will the Present Upward Trend of World Prices Continue?" in the *American Economic Review*, September, 1912.

exceptional years, the year 1899 being an exceptionally plentiful year and 1909 being an exceptionally scarce year.[2]

If we can accept Mr. Murray's figures and compare those figures for 1892 to 1896 inclusive, which are the years of low prices and compare them with the last five year period of high prices, from 1907 to 1912, we find that the per capita production of the ten leading crops has not decreased but has increased 9 per cent, while prices of those crops have increased during this period 58 per cent. Now the tendency of increasing crops would naturally be expected to lower prices, but they have actually risen 58 per cent.

For the world as a whole we find indications that the volume of goods produced and sold has, instead of falling off in the last fifteen years, actually increased at the rate of 4½ per cent per annum while the population of the countries concerned has increased only about 1 per cent per annum. Again, taking some figures published recently by the *Wall Street Journal* giving the money value of the world's exports and the average of the world's best index number and dividing the former by the latter we obtain a rough index of the world international commerce. This has increased almost every year since 1890 and faster than the increase of population.

The figures for international trade in grain published by the Department of Agriculture show the same results. Finally the International Institute of Agriculture has worked out index numbers of the combined production of a large number of countries of twelve products between 1901 and 1910. They show an increase in all cases but

[2] An opposite opinion is held by Mr. J. L. Coulter (*Quarterly Journal of Economics*, November 1912). Mr. Coulter, however, makes no specific comparisons for other years and makes no use of the estimates of the Department of Agriculture. It is unfortunate that we have nothing better than estimates for intercensal years. In the absence of exact data there is no way of being sure whether Mr. Coulter or Mr. Murray is nearer right. Mr. Murray's results appeal to me because they fit in so well with all the other facts I have been able to gather. If we are justified in refusing to use the estimates of the Department of Agriculture in this connection, this merely accentuates the importance of finding out what are the actual facts in the case. It only makes more imperative the keeping of actual statistics for every year, so that we may know whether production is increasing or decreasing and in that way be able to decide whether the trouble with prices is scarcity of goods or abundance of gold.

two and usually an increase far greater than the increase in population.

These results indicate that we are not facing a progressive dearth of goods but that, on the contrary, we are growing yearly richer.

This result is what we would expect. Science is increasing productivity and crop failures are seldom so widespread as to affect world prices of many crops simultaneously. An individual crop may vary so as to produce an alternate feast or a famine and in isolated markets like those in the Orient the real value of such a crop may be enormously affected. But a world feast or famine even in one crop is an improbable coincidence. When India's crop fails the crop in the Dakotas or Peru or in Argentine is not unlikely to move in the opposite direction. It is still less probable that the rice crop, the corn crop and the oat crop will all simultaneously shrink and when we consider the various articles that enter into our budgets, the idea that there should be a simultaneous and world-wide dearth continuing through a number of years becomes increasingly preposterous—almost as preposterous as to suppose floods to occur in almost all parts of Europe, America, Asia and Africa at one and the same time or as to suppose that most of the buildings insured in one fire insurance company should burn down in the same year.

By emphasizing the monetary factor, I do not wish to deny the importance of many reforms in economizing the energies of man in every direction; for instance, all kinds of labor saving methods, coöperative devices, the reduction of middlemen, encouragement of simplicity in living, the reduction of human disease and disability, etc. These are important at all times, whether prices are rising, falling or standing still.

The last mentioned, the reduction of disease and disability, is a subject in which I am especially interested, and I would be the last to overlook its importance. Disease, however, contrary to the impulsive opinion of some has been on the decrease during the last ten years, and we cannot consequently ascribe to it a place among the factors responsible for the present high cost of living.

If it can be shown then that gold has been relatively stable, but that two or three hundred commodities, the prices of which have been recorded in our index numbers, have simultaneously grown scarce we may lay the blame on goods. On the other hand, if it can be shown as I believe the available evidence indicates that the production of com-

modities, taken in the mass, has changed but slightly and also steadily while the volume of money and its substitutes have been subject to enormous and rapid fluctuations, then the cost of living problem is to a very large extent a monetary problem. In this case we should adapt our remedies to the situation and "let the punishment fit the crime" by trying to stabilize the dollar. In other words if we can make the purchasing power of the dollar stable in terms of commodities, we shall have substituted virtually a multiple standard for a single gold standard, and a multiple standard, as Jevons states, on the mere basis of probability, is far more stable than a standard based on one thing only.

There is not space here to enter into a discussion of the details of the plan which I propose for putting a multiple standard in place of our present gold standard. A report of my address before the American Economic Association is given in the *American Economic Review*, for March, together with answers to certain objections raised to the plan at that meeting. A more complete statement is given in the *Quarterly Journal of Economics* for February.

Of the few hundreds of people who have studied the plan carefully almost all have given it hearty endorsement. If the growing opinion that the rising cost of living is a monetary phenomenon proves correct and if this inflationistic process continues we may hope that the nations of the world may one day consider monetary remedies among the rest.